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Subprime Losses, Slashed Bonuses Threaten Funding to Nonprofits

By Laurence Arnold and Patrick Cole

Nov. 14 (Bloomberg)—Billions of dollars in credit-market losses and shrinking bonuses for some Wall Street traders pose a threat to two major sources of charitable giving: corporations and individuals.

Nonprofit groups say it's too early to predict how their fundraising will be affected by the housing-market turmoil that has forced the world's biggest banks to write down more than \$40 billion.

"What we've been told is they've been looking at all their giving levels and assumptions for next year and they'll let us know as things settle," Gary Officer, chief executive officer of Rebuilding Together, said about its top donor, Countrywide Financial Corp.

The Washington-based nonprofit, which repairs houses for elderly, disabled and low-income residents, received \$1.3 million last year from Countrywide, the biggest U.S. mortgage lender. Countrywide posted a \$1.2 billion third-quarter loss last month from bad home loans. Countrywide did not respond to a request for comment.

Nonprofits may see a fallout from the market turmoil as early as next month if year-end bonuses are cut, said Judith Jedlicka, president of Business Committee for the Arts, an organization that promotes corporate support of the arts.

"Nonprofits do year-end appeals to catch that wonderful gift, but if bonuses are diminished, there may not be that money to give," she said in a phone interview. "There's always a lag time with big companies since money given this year and maybe next year is already committed. With individuals it will be more immediate."

REELING FROM LOSSES

Banks and brokerage firms are reeling from losses on subprime-mortgage investments, which in turn are dragging down U.S. stocks. Compensation experts are predicting that bonuses will either be unchanged or down between 5 percent and 15 percent for fixed-income traders and executives. Amid the gloom, though, Wall Street still is poised to report its second-most-profitable year.

Citigroup Inc., the world's largest bank, warned on Nov. 4 that asset-backed bonds it holds may have lost as much as \$11 billion in value. Merrill Lynch & Co. last month reported \$8.4 billion of writedowns of leveraged loans and fixed-income securities. Merrill Chief Executive Officer Stan O'Neal was ousted by the board and Citi CEO Charles O. "Chuck" Prince resigned.

Melissa Brown, associate director of research at Indiana University's Center on Philanthropy, said nonprofits that rely heavily on contributions from financial companies are likely re-evaluating their plans for 2008.

LOOKING AT OPTIONS

"They're going to try to figure out what options they have to cut program costs, or to find another donor to make up that difference," Brown said in a phone interview. "If I was in an organization that gets a lot of money from Merrill, I'd be thinking."

Merrill said it donated \$40 million to charitable causes in 2006, including cultural arts, education, health-care and human services, up from \$37 million in 2005. It gives some money directly and supports other groups through a corporate foundation.

"We do not expect the current market environment to impact our giving over the long term," Merrill spokeswoman Selena Morris said in an e-mail.

Valerie Hendy, a spokeswoman for Citigroup Foundation, said in a phone interview that it was too early to comment on the market's impact on its giving. The foundation awarded 2,700 grants worth \$92.9 million in 2006 to education and community-building projects. "We're going to have to wait until the smoke clears to assess things," Hendy said.

NEW DONORS

Nonprofits said they have broadened their donor base in recent years, reducing the potential impact when a crisis strikes a particular company or sector.

"We used to rely upon particular institutions, to our peril from a budgetary standpoint," said Christopher Conway, vice president for development at the Joffrey Ballet in Chicago. He said diversification was a necessary response as mergers and acquisitions thinned the field of major corporate donors.

Merrill said it gave Joffrey between \$25,000 and \$100,000 this year. While declining to cite the specific figure, Conway said the number is "at the higher end" of the range.

The dance troupe now gets support from about 40 financial institutions, so Merrill's donation is a fraction of the \$19 million Joffrey raised last year, Conway said.

The Frick Collection in New York, which also received between \$25,000 and \$100,000 from Merrill, gets more donations from foundations than corporations, said Heidi Rosenau, a Frick spokeswoman.

KEEPING PLEDGES

“When one organization, whether a foundation or a corporation, doesn’t extend support in a specific year, it’s not as if the rug has been pulled out from under us,” she said.

Many nonprofits, particularly cultural arts groups, are seeing strong levels of contributions at their fall galas. The Metropolitan Opera raised \$4.8 million at its September benefit, a record, while the New York Philharmonic raised \$2.95 million in one evening. The Chamber Music Society of Lincoln Center raised more than \$1 million for the first time at its opening-night fundraiser in September.

Donations have not ebbed for Lincoln Center for the Performing Arts’ \$1 billion renovation campaign, spokeswoman Betsy Vorce said.

“Unless there’s a worldwide calamity, you don’t see people rescinding on pledges,” said Bret Silver, development director at Jazz at Lincoln Center in Manhattan.

MORE GALAS

Online auctions for charities and benefit dinners are not being canceled or scaled back. CMarket, which hosts online auctions for nonprofits and school fundraisers, will hold 1,700 auctions this year, up from 850 in

2006, CEO Jon Carson said in a phone interview.

Diana Mehl, editorial director of Panache Magazine, which publishes lifestyle news for 50,000 affluent subscribers, said “there are just as many, if not more, galas,” in New York, Chicago, Los Angeles and Palm Beach, Florida, that seek listings on Panache’s Web site.

Highly paid executives are unlikely to retreat from their personal giving, former Citigroup Co-Chairman John Reed said in an interview.

“It certainly won’t affect me,” Reed said about his overall philanthropy.